

Message Text

LIMITED OFFICIAL USE

PAGE 01 COLOMB 01291 101139Z

51

ACTION NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 IO-14 DRC-01

/171 W

----- 105203

R 091300Z MAY 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 968

LIMITED OFFICIAL USE COLOMBO 1291

EO 11652: N/A

TAGS: EAID, CE

SUBJ: MOV NEGOTIATIONS: SEVENTH MEETING, MAY 8, 1974

REF: COLOMBO 1066

1. SUMMARY: IN MAY 8 MEETING, FINANCE SECTY COOREY PRESENTED
GSL COUNTERPROPOSAL CALLING FOR REPAYMENT OF ONE ICA LOAN AT FEEC
RATE AND OTHER TWO AT OFFICIAL RATE (MAKING EFFECTIVE RATE ON
ALL THREE RS 8.1 TO US \$1 IF REPAID ON PRESENT TERMS, AS
COMPARED TO RS 10.1 TO US \$1 UNDER US PROPOSAL). GSL PRO-
POSAL ALSO CALLS FOR 25 YEAR REPAYMENT OF ALL ARREARAGES AT
OFFICIAL RATE AT ONE PERCENT INTEREST AND 15 YEAR
ADDITIONAL STRETCH-OUT OF REPAYMENT FEEC RATE LOAN, PLUS
REDUCTION OF INTEREST ON IT. GSL JUSTIFICATION IS BASED ON
EXTREMELY DIFFICULT DEBT SERVICING POSITION IN SHORT TERM.
NEXT MEETING SCHEDULED MAY 14. END SUMMARY.

2. AMB, ACCOMPANIED BY DCM AND ACTING AID REP
MET WITH FINANCE SECTY COOREY, DEPUTY DIRECTOR
EXTERNAL RESOURCES VELAYUTHAN, AND SIVASUBRAMANIAM OF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COLOMB 01291 101139Z

CENTRAL BANK MAY 8. AMB OPENED MEETING BY EXPRESSING

GRATIFICATION AT PROGRESS ACHIEVED DURING THREE WEEK INTERVAL SINCE LAST SESSION IN THAT EMBASSY AND GSL HAD NO CONFORMED ALL FIGURES ON ARREARAGE AND FUTURE PAYMENT PROJECTIONS. HE THEN STATED HOPE THAT PROGRESS COULD ALSO BE MADE ON SUBSTANCE OF NEGOTIATIONS IN FORM OF GSL COUNTERPROPOSAL.

3. COOREY RESPONDED THAT HE HAD REPORTED TO HIGHER AUTHORITIES US REJECTION OF GSL EARLIER PROPOSAL INVOLVING ACCEPTANCE OF MOV PRINCIPLE BUT GIVING EXTRA RUPEE PROCEEDS BACK TO GSL BY ONE METHOD OR OTHER. NOW, IN INTERESTS REACHING SETTLEMENT, GSL WAS READY TO PUT FORWARD COMPROMISE COUNTER-PROPOSAL BASED ON TWO FUNDAMENTAL PREMISES: FIRST, NOT TO INCREASE ANNUAL GSL DEBT SERVICE BURDEN; AND SECOND, TO CONTINUE TO PROVIDE USG WITH SUFFICIENT RUPEES FOR ITS OPERATING EXPENSES IN SRI LANKA. HE THEN READ FROM FOLLOWING PAPER:

4. BEGIN TEXT (UNNECESSARY WORDS OMITTED). BASIS OF SETTLEMENT PROPOSED BY GOVT OF SRI LANKA. ON STRICTLY LEGAL INTERPRETATION OF MAINTENANCE OF VALUE CLAUSE IN 3 ICA AGREEMENTS, GOVT OF SRI LANKA IS NOT REQUIRED TO REPAY LOANS AT FEEC RATE. THERE IS PROVISION IN THESE AGREEMENTS, HOWEVER, FOR A RATE WHICH MAY BE MUTUALLY AGREED UPON FROM TIME TO TIME TO BE APPLIED FOR LOAN REPAYMENTS. US GOVT HAD ACCEPTED THIS POSITION AND MADE COMPROMISE PROPOSAL AT MEETING HELD ON 26TH MARCH, 1974, THAT FEEC RATE SHOULD BE APPLIED ON ARREARAGES AND FUTURE PAYMENTS OF 2 OR 3 DISPUTED LOANS, NAMELY ICA - X-83 - 2 AND ICA-X - 83 - 3. WHILE ACCEPTING OFFICIAL RATE FOR THIRD LOAN ICA - X - 83 - 1. UNDER THIS PROPOSAL THERE WOULD, THEREFORE BE NO ARREARAGES ARISING FROM RATE DIFFERENTIAL ON THIS LOAN.

IN CONSIDERING THIS OFFER, GSL MUST AGAIN REITERATE ITS POSITION THAT WE SHOULD, STRICTLY SPEAKING, HAVE NOT BEEN REQUIRED TO SETTLE EVEN DLF LOANS AT FEEC RATE IN VIEW OF PAKISTANS EXPERIENCE WITH MULTIPLE CURRENCY PRACTICES BUT, HAVING CONCEDED THIS IN 1972, WE HAVE NOW NO INTENTION OF GOING BACK ON THOSE ARRANGEMENTS; ALSO, THAT FEEC SCHEME WAS INTRODUCED IN MAY 1968 AT STIMULUS TO NON-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COLOMB 01291 101139Z

TRADITIONAL EXPORTS AND NOT TO CONFER ANY BENEFITS ON OUR CREDITORS. HOWEVER, AS USG WISHES TO MAINTAIN ITS POSITION THAT MOV CLAUSE IN ICA AGREEMENT HAS SAME INTENT AS CLAUSE BETWEEN GOVT OF SRI LANKA AND SUCCESSOR AGENCIES TO ICA, GSL IS PREPARED TO CONCEDE PRINCIPLE AND ARRIVE AT COMPROMISE ARRANGEMENT UNDER WHICH WE WOULD AGREE TO PAY EVEN A PORTION OF OUR DEBT OBLIGATIONS ON ICA LOANS AT FEEC RATE PROVIDED THERE ARE COMPENSATORY BENEFITS TO SRI LANKA. OTHERWISE,

WE WOULD NOT BE ABLE TO JUSTIFY ANY DEPARTURE FROM STRICT
LEGAL INTERPRETATION OF MOV CLAUSE IN 3 ICA LOAN AGREEMENTS
WITH SRI LANKA.

WE HAVE EXAMINED USG'S PROPOSAL IN THIS LIGHT AND, WHILE
APPRECIATING COMPROMISE OFFER WHICH HAS BEEN MADE WITH
VIEW TO SETTLEMENT OF THIS LONG-STANDING ISSUE, WE WOULD
NEVERTHELESS POINT OUT THAT GROUPING PROPOSED IS NOT QUITE
RATIONAL.

IT WILL BE RECALLED THAT UNDER ICA LOAN NO 1, VARIOUS ITEMS
OF US EQUIPMENT AND MACHINERY WERE SUPPLIED TO SRI LANKA,
WHILE ICA LOANS NOS 2 AND 3 WERE REALLY LENDING OF RUPEE
FUNDS WHICH WERE GENERATED BY SALE OF SURPLUS US FOOD
COMMODITIES TO GSL. EVEN THOUGH ALL 3 LOANS HAVE BEEN
DESIGNATED IN US DOLLARS, CORRECT POSITION IS THAT IT IS
ONLY UNDER ICA LOAN NO 1 THAT US DOLLARS WERE ACTUALLY
DISBURSED.

TAKING 3 LOANS TOGETHER, THEREFORE, GSL WOULD, IN ATTEMPT TO
REACH SETTLEMENT THIS ISSUE, AGREE TO REPAY ICA LOAN NO 1
AT FEEC RATE AND OTHER 2 AT OFFICIAL RATE PROVIDED FOLLOWING
ADDITIONAL CONDITIONS ARE AGREED TO BY USG. THESE CONDITIONS
ARE STIPULATED WITH VIEW TO ENSURING THAT DEBT SERVICE OB-
LIGATIONS OF GSL IN RESPECT OF THESE 3 LOANS WOULD NOT BE
APPRECIABLY INCREASED IN FUTURE, WHILE AT SAME TIME PRESERVING
FOR USG ITS PRESENT LEVEL OF FOREIGN EXCHANGE OUTGOINGS FOR
ITS EMBASSY AND OTHER EXPENSES IN SRI LANKA. ADDITIONAL
CONDITIONS WE PROPOSE ARE:

I) THAT IN RESPECT OF ICA LOAN NO 1 REPAYMENT
OF OUTSTANDING LOAN AND INTEREST AT FEEC RATE EFFECTIVE
FROM 1ST JULY 1974.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 COLOMB 01291 101139Z

II) INASMUCH AS AGREEMENT PROVIDES FOR RATE TO BE
MUTUALLY AGREED UPON FROM TIME TO TIME ALL INSTALLMENTS AND
INTEREST ON THIS LOAN, FALLING DUE FOR PAYMENT PRIOR TO
1ST JULY 1974, BE MADE
E E E E E E E

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBT REPAYMENTS, NEGOTIATIONS, FOREIGN EXCHANGE TRANSACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COLOMB01291
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740114-0544
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740562/aaaacddc.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: COLOMBO 1066
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 24 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 SEP 2002 by boyleja>; APPROVED <10 JAN 2003 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MOV NEGOTIATIONS: SEVENTH MEETING, MAY 8, 1974
TAGS: EAID, CE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005